

# The Case Against Google Play Billing

October 4, 2017. Ajay Arora.

Google is planning a drastic change to its Android In-App-Payments (IAP) policy starting in Q3'2018 (see [internal memo](#)). This memo presents numerous arguments for why we should move away from Google Play Billing when the new policy comes into effect. While this memo focuses on the case *against* Google Play, it may evolve to also present the counter-case (or simply link to a memo that presents the arguments *in favor* of Google Play).

This memo is just one of the many tools we'll use during the decision-making process. In parallel, we are crafting a quasi-experiment to estimate the impact of this change, and are modeling the financial impact of Google's proposal.

## Background

Google's new policy emulates [Apple's policy for In-App-Payments](#) in iOS; App makers now must use Google exclusively for **all** digital content purchases within an app and pay Google a recurring transaction fee. If the app maker chooses not to use Google Billing, the app can **only offer a consumption experience** - removing all aspects of commerce (sign-up, upgrade, change payment, etc).

Today, we only support Google Play Billing in [67 countries](#) that have tested positive relative to Netflix MOP. These are mostly smaller markets in Middle East, Africa, and South-East Asia that make up 5.9% of in-app visitors and 8.1% of in-app signups.

## Downsides of Supporting Google's Policy

Here's a list of 13 Reasons Why we should move off Google Billing in Android when this new policy comes into effect:

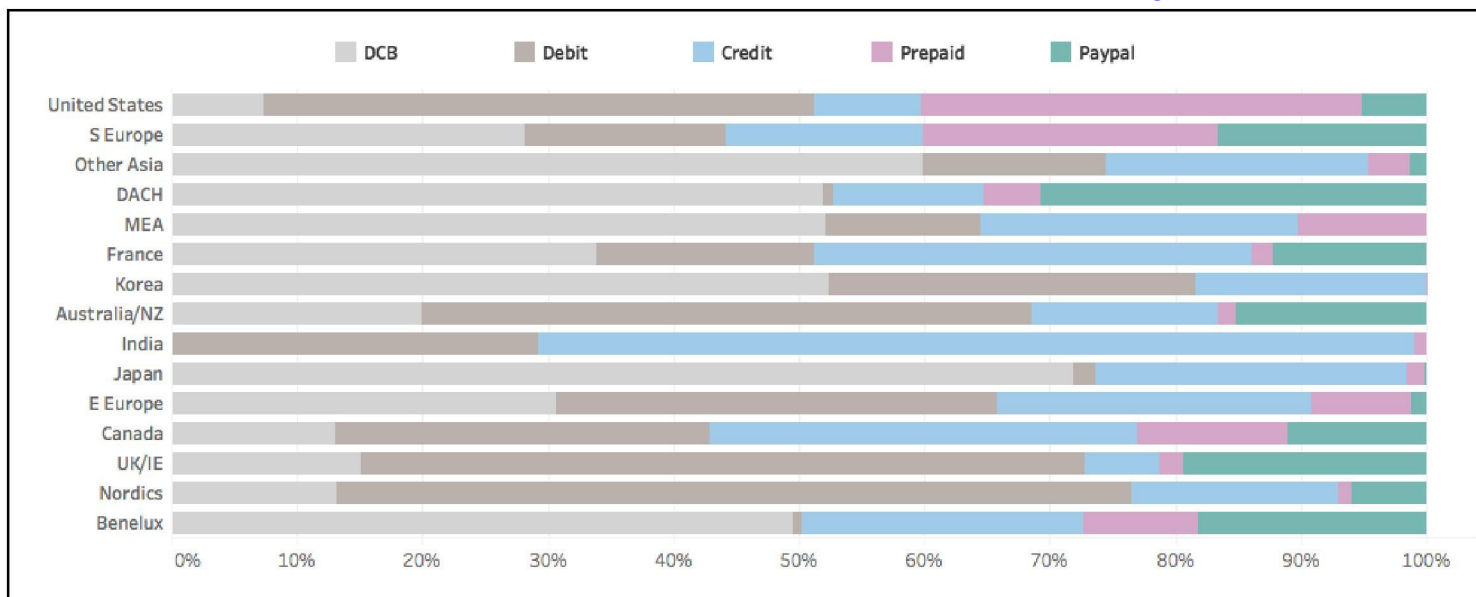
### 1. Google's MOP Advantages will Diminish Over Time (particularly when we launch Global DCB):

A significant benefit is that Google offers [numerous payment methods](#) and [local currencies](#). However, this advantage is diminishing as we continue to add new payment methods like [global direct carrier \(DCB\) billing](#), local payment options (like [Maestro](#)), and more local currencies (ie: [Peru](#), [South Africa](#), [Saudi Arabia](#), and [United Arab Emirates](#) all launching soon).

Most notable is that DCB is used as the underlying MOP for more than 50% of Google Play accounts in DACH, MEA, Benelux, Korea and Japan. See table below for distribution of underlying MOPs in Google.

Underlying MOP-types in Google Play Billing (shared by Google):

**EXHIBIT 2051**



## 2. Not as Motivated or Sophisticated in Handling Recurring Payments

The Payments team at Netflix employs numerous techniques to optimize collection of recurring payments. These techniques, like our hold messaging, account updater, algorithmic retry logic, and processor and transaction chaining logic is why recovery rates for Netflix MOPs are [significantly better](#) than Google (despite working with Google for a year to make improvements). Plus, we continue to add innovative features like the ability to partially bill and offer prorated service based on available funds. These features are unlikely to be introduced by Google and should remain part of our subscription secret-sauce.

Update (11/09):

A few have commented that it's only a matter of time before Google will catch up to Apple's retention. However, here is my rationale for why Apple's retention is significantly better than Google's (and will be for at least the next few years) :

1. Apple requires a valid MOP to access their App Store (even when downloading a free app!). On your first day with an iPhone you've added a credit card to you account - that is not the case on Android phones.
2. Apple Pay prompts - starting with iOS10, Apple has significantly increased the messaging around adding a credit card for Apple Pay. There now interstitials and pop-ups throughout the iPhone experience if you do not activate Apple Pay with a valid MOP.
3. iCloud storage: Many people simply run out of the standard free 5GB iCloud storage and for just \$0.99/month can upgrade their account. This provides another reason to have a valid recurring MOP associated with your Apple/iTunes account.

Google simply does not have the same relationship with users (like Apple or Netflix) to justify having a valid MOP on file.

## 3. Poor Underlying MOPs for Google Play Accounts

Google's MOPs will always be worse than Netflix because there is no incentive for them to optimize for the best recurring MOPs. At Netflix, we continually test and purge MOPs that do not add incremental value and cannibalize better MOPs (for example, we tested and decided against [Pay-by-Link in Poland](#), and opted against [Paytm in India](#) and [OneCard in SA](#) based on cannibalization concerns).

Also telling is the level of prepaid MOPs on Google Play. Compared to credit and debit, prepaid MOPs have higher churn. In the US, 35% of the Google Play signups are on prepaid MOPs (compared to 10% on Netflix).

#### 4. Paying to Help Google Add Qualified Users

On an iPhone, you're prompted to give Apple a valid MOP as part of the phone setup process (for App Store and Apple Pay). However, this isn't the case for Android. It's unclear, because Google is not forthcoming with the data, on how many users are giving Google a MOP just so they can sign up for Netflix via Google Billing. Essentially, we are paying Google a recurring transaction fee, while Google benefits by getting qualified users to add a MOP to their Google Wallet. Note, this is one of the primary reasons we turned off PayPal in LatAm, as few PayPal users in LatAm had a MOP on file, and Netflix was driving new PayPal signups in the region (other reasons include fraud concerns and that PYPL offered fewer MOPs in LatAm).

#### 5. Legitimizing this Policy Change

News of this upcoming policy change has not leaked online, implying we are one of the first partners to know about this impending change. Executing this change will be a massive undertaking for Google as they will need to:

- Prepare for a large backlash from the Android community (particularly as it's an about-face from their anti-Apple positioning)
- Drastically change the app submission and approval process for the Google Play Store, while creating a 'policing body' and an appeal process (Update 11/06: [Manrique] Google has indicated that they are already building the tools to test compliance with their new payments policy.)

Netflix agreeing to participate will legitimize Google's policy change and make it easier for Google to convince the numerous other companies to follow along (from streaming music providers, productivity apps like Dropbox, to subscription newspapers).

Updates (11/09):

- [Luis] Last week the head of product for Match.com (Tinder, OKCupid) reached out to chat about this. They are also planning on saying no to Google's new proposal.
- [Manrique] Google has indicated that they are moving forward with the policy change regardless of our decision of continuing with IAP or not. As Luis notes, other developers are being notified and announcement is forthcoming in Q1.

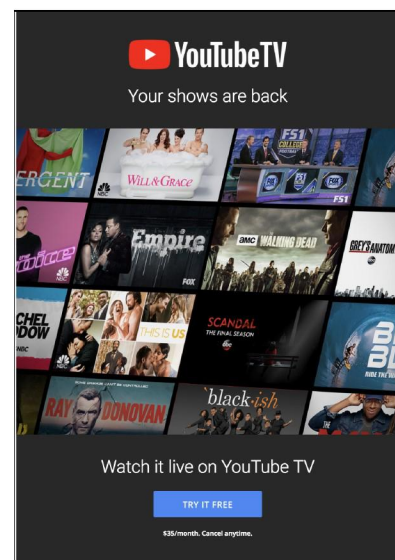
#### 6. Arming Potential Competitor(s)

YouTube (Free, Red, and TV) competes with Netflix in winning "moments of truth". Every technique we share with Google in improving their recurring payment collection, while also driving more users to add a MOP though Google will benefit YouTube's paid offerings. Additionally, since Google's payment platform will be used by companies like Hulu and HBO Now, we will also be indirectly benefiting these companies.

#### 7. Customer Support Challenges

Providing support to Google Play billed customers is often more painful for both agents and customers for a number of reasons:

- Little agent visibility into what the user has actually paid
- Google's clunky hold functionality has been a source of confusion and frustration for customers (e.g. delay in coming off hold after payment update, etc)
- Customer friction due to confusion managing the two different username & passwords (Google & Netflix)
- Confusion among customers who often have multiple Google Play accounts, and can't locate the account that bills for Netflix
- Inability to apply a partner pre-paid promotion or Netflix Gift Card to a Google Play billed account. Only solution is to advise customer to cancel account, let it fully close, and then rejoin via new MOP.
- Friction for customers who wish to cancel, which can only be done through Google





## 8. We Lose Control of the Cancel Experience

The Netflix cancel experience is just as important as the signup flow, yet we don't have any control over the Google Cancel flow (we redirect users on Netflix to cancel on Google). As we begin experimenting with [innovative ideas to optimize the cancel flow](#), we will not be able to offer these innovations to Google Play Billing users.

## 9. MOP Transition Friction

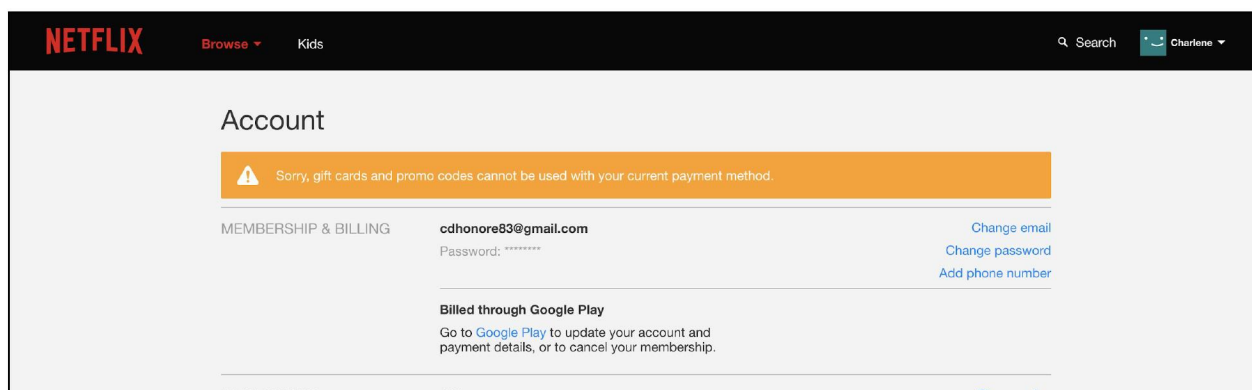
After launching the T-Mobile MOP transition flow, we discovered a few problems with transitioning user from Google Play MOP. Firstly, Google does not handle this flow gracefully, Google sends the user an automated "Subscription Canceled" email, even though the subscription is still active. This problem will only get bigger as we do more bundle partnerships.

## 10. Flexibility on Price Changes

Adjusting our subscription price globally is core to our product strategy and using third-party billing partners, like Google, adds additional complexity. While Google is ahead of Apple in providing us with tools to manage price changes, we are still unable to provide a consistent price change experience between Netflix MOP members and members paying using Google. For example, Google insists on an affirmative consent model for price changes.

## 11. Hurting our Growing Gift Card Business (while helping Google's)

Subscribers using Google Play Billing are prevented from using Netflix Gift Cards (see below for error message presented to users), yet are able to use Google Play gift cards to pay for their Netflix subscription.



## 12. Diminishing Value of Providing Credibility & Legitimacy

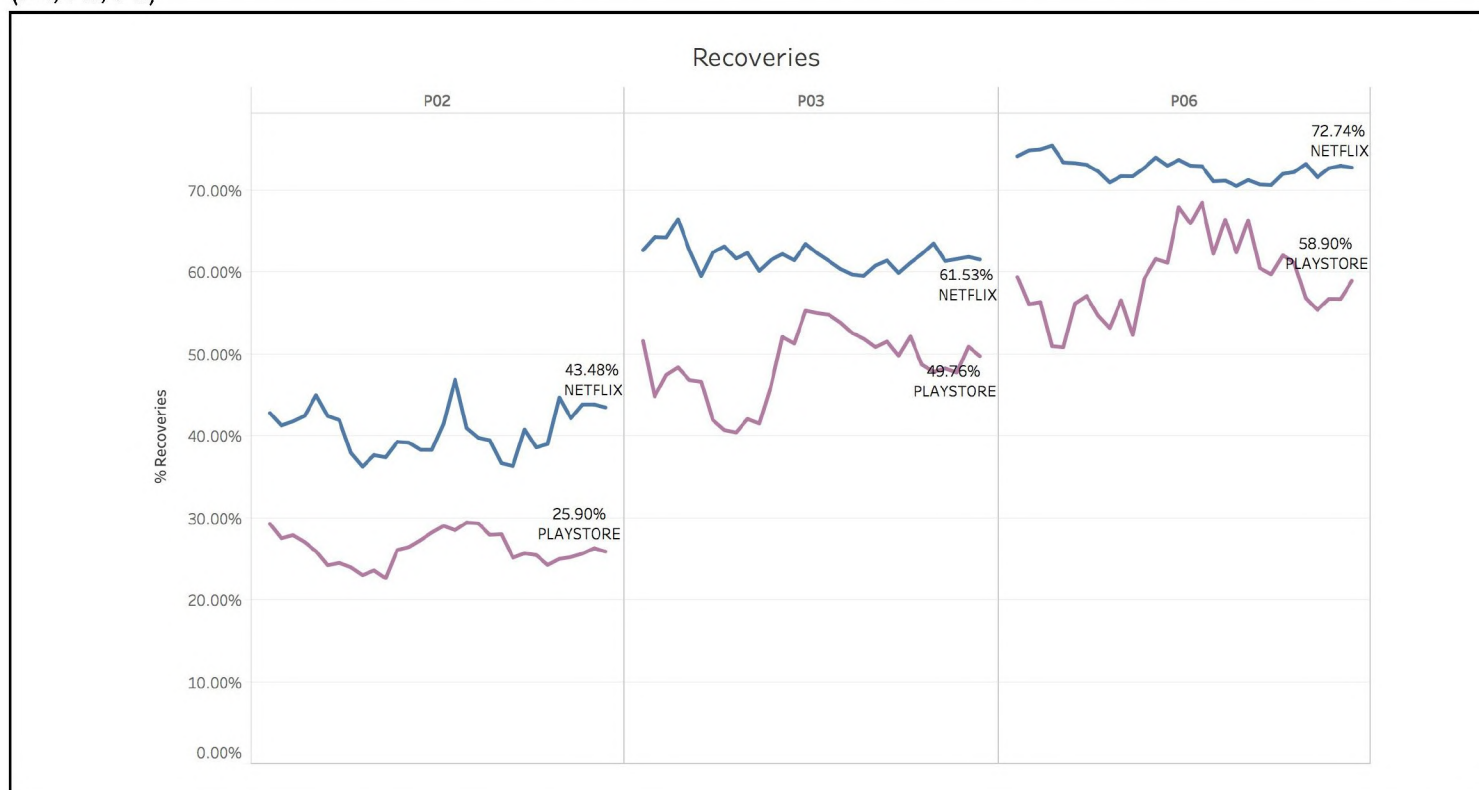
One of the greatest advantages of Google Billing is that it gives small app developers credibility and legitimacy when charging users because Google, a brand loved and trusted by billions, is handling the payment. While we've certainly benefited from this phenomenon in our underdeveloped markets this value is diminishing as we increase penetration and brand recognition globally. Note that offering MOPs like DCB, will also bring us additional credibility and legitimacy in some of our underdeveloped markets.

## 13. Need to pay Google a Rev-Share

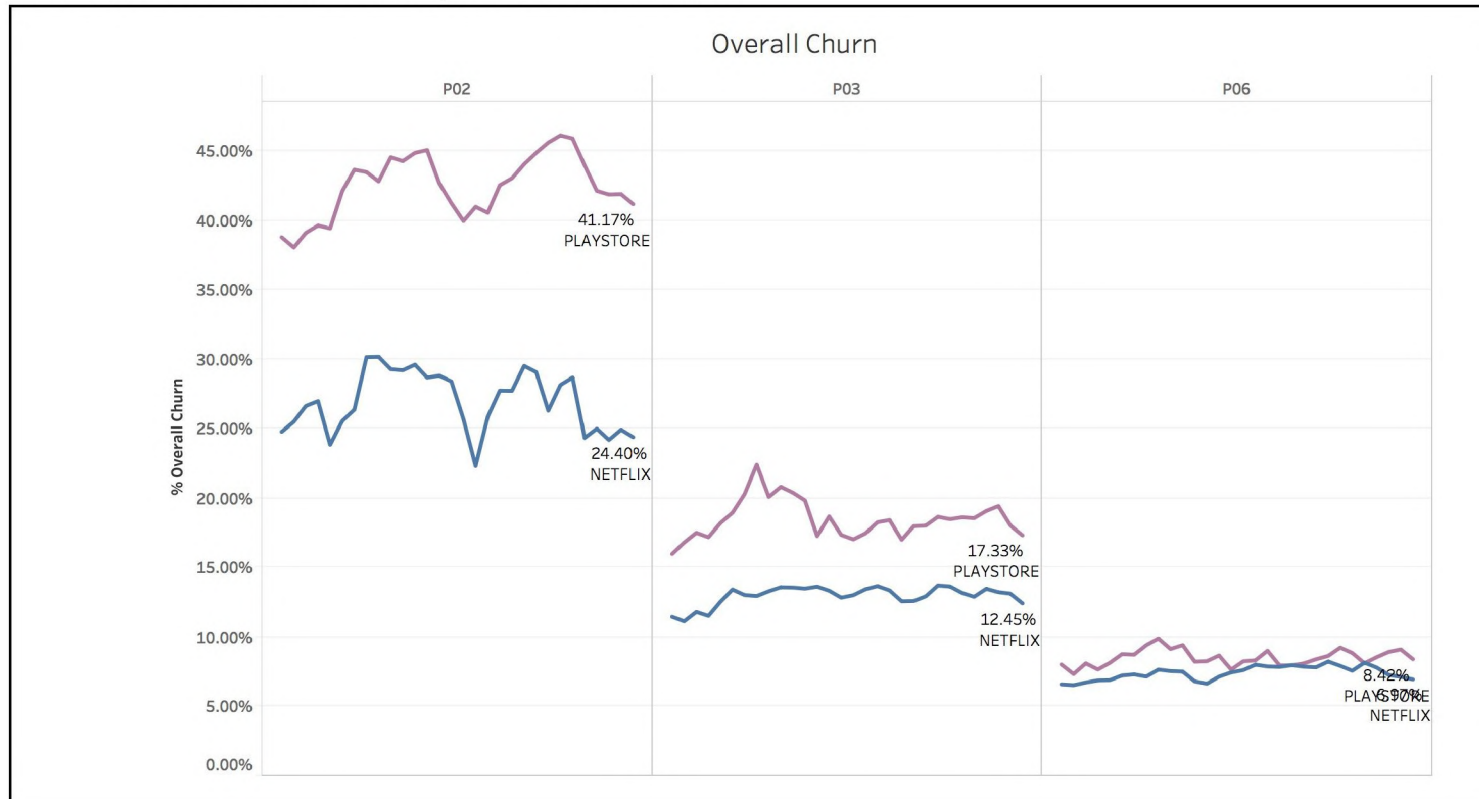
Finally, using Google's Billing Platform comes at a financial cost. Google's initial proposal is a recurring 15% fee if we select which countries to introduce Google Play Billing, or a 10% fee if we agree to a Global deal in which Google will be the defacto billing method for ALL users that sign up within our Android app. While these fees are likely to be negotiated down, the upside that Google brings must be weighed against this recurring fee.

## Comparing Playstore billing to Netflix, for Android mobile signups

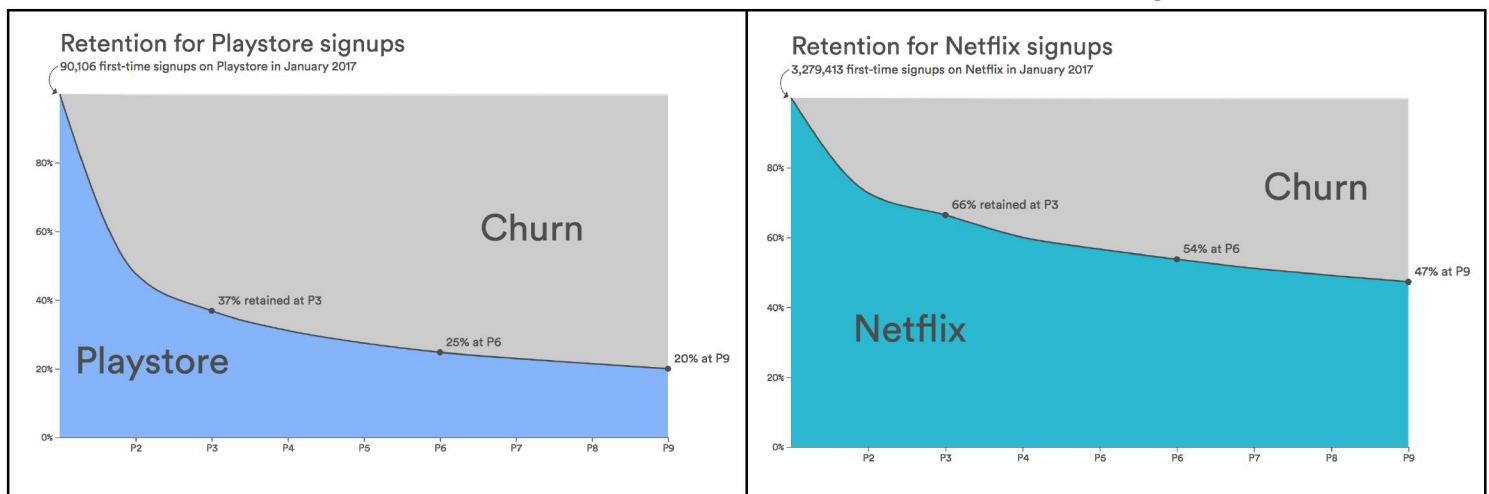
The chart below shows recoveries between Netflix and Google Playstore for Android mobile signups. Even for members who are signing up on Android, Netflix is recovering customers better than Playstore, across all cohorts (P2, P3, P6)



For the same cohorts, here is the picture of overall churn:



Retention snapshot between Playstore and Netflix for signups from Jan'17



## Next Steps

We are taking a multipronged approach to assist with our decision-making:

1. We're crafting a quasi-experiment for a [holdback test](#) that would assess how much incremental lift Google Play Billing provides over a consumption-only Android app. The test would select pairs of countries across the spectrum of good/fair/poor Google Play Billing performance. The analysis aims to answer the question, "At what % Rev. Share (if any), is Google Play Billing net positive for us in the long-term?"  
Owner: Sathya Anand (S&A). [Link to Experiment Design](#)
2. We're [modeling](#) out what the incremental acquisition lift would need to be to justify the move to Google Play Billing (versus moving to a consumption only Android app). The model includes sensitivities for adjusting the acquisition lift, the fee to Google, and the subscriber churn (with a scale between Google's current churn and Netflix MOP churn). Early analysis suggest that the incremental lift would need to be 39% with an 8% transaction fee to Google if churn remained the same to justify moving to the new policy.  
Owner: Priya Sahai (PP&A). [Link to Summary](#) | [Link to Model](#)

## Appendix A: Google's Current Policy Regarding In-App Billing

The *current* policy, [see below](#), requires all *game makers* to use Google's IAP, but offers a carve-out for for two styles of apps, those that:

- i. exclusively sell physical goods, or
- ii. offer digital content that can be consumed outside the app (ie: Spotify, WSJ, Amazon Kindle, NYT, etc).

These apps can choose to use Google IAP (and pay a recurring transaction fee to Google), OR, choose to offer their own method of payment (MOP) options - handling the payment directly or leveraging payment partners like PayPal, or Boku, etc.

Relevant section is highlighted in **yellow**:

Payments

Apps that employ in-store or in-app purchases must comply with the following guidelines:

**In-store purchases:** Developers charging for apps and downloads from Google Play must use Google Play's payment system.

**In-app purchases:**

- Developers offering products within a game downloaded on Google Play or providing access to game content must use Google Play In-app Billing as the method of payment.

- Developers offering products within another category of app downloaded on Google Play must use Google Play In-app Billing as the method of payment, except for the following cases:
  - Payment is solely for physical products
  - Payment is for digital content that may be consumed outside of the app itself (e.g. songs that can be played on other music players).
- In-app virtual currencies must only be used within the app where they were first purchased.
- Developers must not mislead users about the apps they are selling nor about any in-app services, goods, content, or functionality offered for purchase. If your product description on Google Play refers to in-app features that may require a specific or additional charge, your description must clearly notify users that payment is required to access those features.

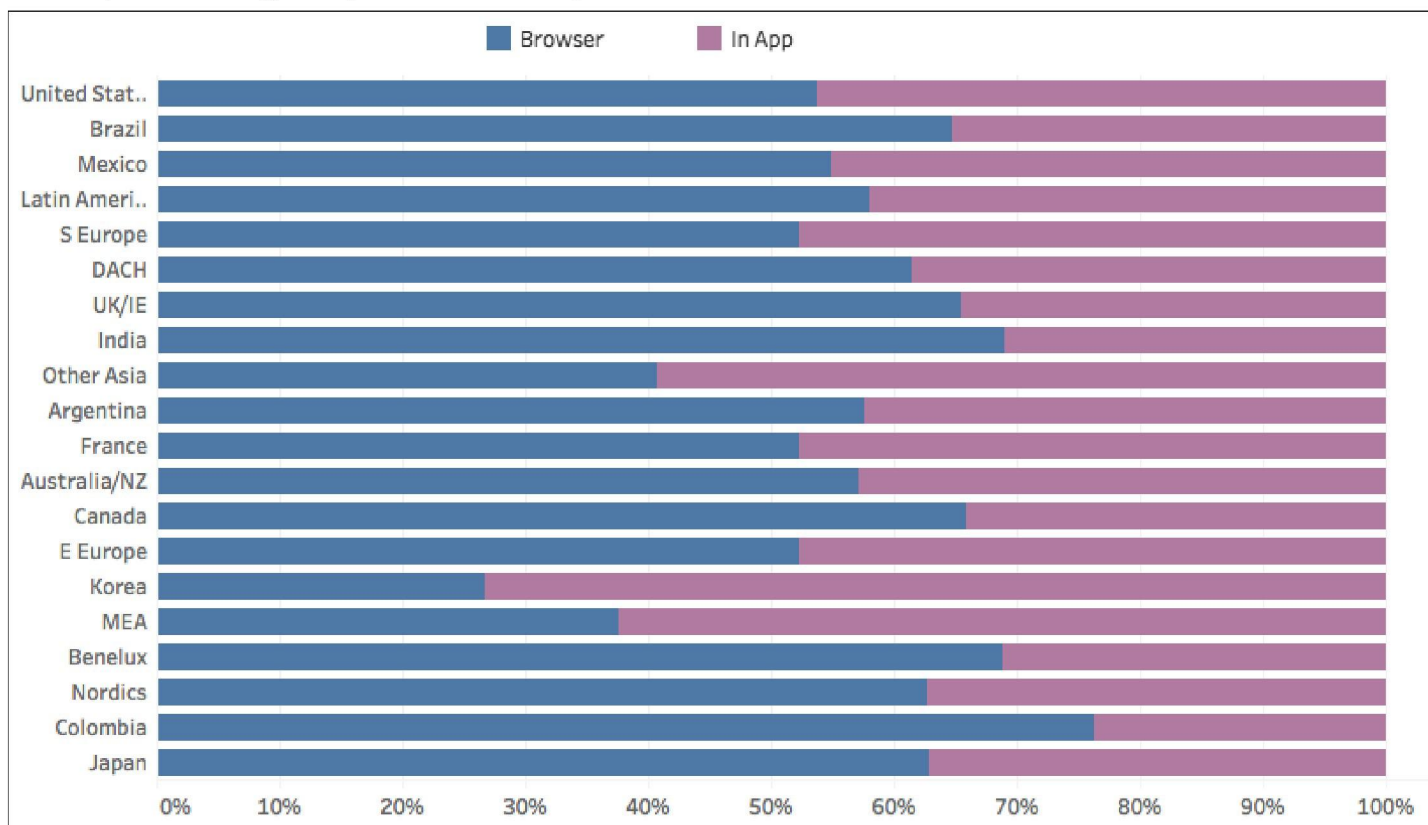
Via: <https://play.google.com/about/monetization-ads/payments/>

## Appendix B: Related Reference Docs

- [Google Play Quasi-Experiment Hold-Back Proposal](#)
- [Google Play Store AB Test Update 3/22/17](#)
- [Google Play 1/6-2/6 \(Hawkeye AB Testing\)](#)

## Appendix C: Sign-Up Distribution between Android In-App vs. Browser

Looking at the Aug '17 signups that are from Android phones and Tablets, majority of signups happen on the browser, where Google Play MOP is not an option:



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## Appendix D: Open Questions We Plan To Answer

1. Worth comparing and contrasting how this memo changes if it was written for the case against Apple. For example, how has Apple made considerable strides in improving churn, yet Google hasn't?
2. Clearly this impacts Android phones and tablets. What about Android TV?
3. How does this change preload deals? Could we support Netflix or partner MOPs for Android preloads?
4. How Google Billing has performed thus far, and which changes they've implemented and what is remaining.
5. How are we using Google Play Billing currently within our Android app:

Currently, the Netflix Android app is using three payment configurations:

- i. Offering Netflix MOP options in XX markets (Canada, US)
  - ii. Offering a 50/50 split of Netflix MOP options OR Google MOP in YY markets
  - iii. Offering only a Google MOP option in ZZ markets
6. How moving to local currencies and supporting local MOPs has drastically helped our business in LatAm.  
"As we've observed, simply adding XYZ in LatAm, resulted in an XYZ advantage over Google Billing."